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Expanding Global Production Networks: The emergence, evolution and the developmental impact of the offshore service sector in the Philippines

Kleibert, J.M.

Publication date

2015

Document Version

Final published version

[Link to publication](#)

Citation for published version (APA):

Kleibert, J. M. (2015). *Expanding Global Production Networks: The emergence, evolution and the developmental impact of the offshore service sector in the Philippines*. [Thesis, fully internal, Universiteit van Amsterdam].

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CHAPTER

8

Conclusions

8.1 Offshore services and economic development in the Philippines

The concluding chapter first provides a brief discussion of empirical findings, after which I position the findings in broader academic debates. The chapter also provides the theoretical and policy findings of the study.

This research started with the observation that the offshoring of services has been identified as a critical economic development issue and as one that has the potential to improve social and economic conditions in developing countries engaged in service exports. These high hopes of economic development have been addressed with a grounded study of the realities of offshore service delivery by subsidiaries and firms in the Philippines. I have used the GPN framework to elucidate developments in networks and territories simultaneously, and gain a better understanding of complex processes of contemporary globalisation, shaped by different firm and non-firm actors.

The relocation of services to developing countries presents a change in the international division of labour. As Massey (1984: 8) writes, new spatial divisions of labour “represent whole new sets of relations between activities in different places, new spatial patterns of organisation, new dimensions of inequality and new relations of dominance and dependence. Each new spatial division of labour represents a real, and thorough spatial restructuring”. This study has observed the integration of the Philippines into expanding GPNs of service delivery. It has explored how and why the offshore service sector in the Philippines emerged, how it has evolved, and how it impacts economic development.

The empirical findings show that the BPO sector rose very fast in the Philippines, leading to considerable employment generation over the past decade and, in 2014, employing approximately one million workers. The sector’s growth has primarily been driven by foreign investment. Some foreign-owned firms have sought linkages with higher-education institutions, thereby increasing their embeddedness. A transition towards higher-skilled services has occurred primarily through captive subsidiaries of MNCs, which conduct back-office work in addition to customer-service operations. Overall, the offshore service sector is dominated by call-centre functions, and is heavily concentrated in urban areas. In the following section, the empirical findings are summarised along the dimensions of the GPN framework.

Emergence: FDI attraction and strategic coupling

Chapters two and three discussed the emergence of the BPO sector in the Philippines, using the concept of ‘strategic coupling’. Comparing the emergence of the BPO sector in the Philippines and India, Chapter two showed that both countries became integrated into expanding GPNs of service delivery at different points in time, with India being a forerunner and the Philippines a later entrant into the sector. In the process of integration, strategic coupling depends primarily on the existence of regional assets, which can be linked with the needs of firms in global networks.

Several differences in both countries’ regional assets for offshore service delivery can help to explain their respective trajectories in offshore service sector development. First, the

most important asset is skilled labour; therefore, differences between the education systems and skillsets of the labour force are important explanatory factors. In India, technical education has been prioritised, and firms are therefore able to deliver a mix of IT, knowledge services, and more standardised BPO services. In the Philippines, the country's comparative advantage has mainly been built on its workforce's English-language skills and 'neutral' accents. Thus, its predominant share of services are voice-based customer-service activities. Second, domestic entrepreneurs have been largely absent or delegated to the lowest ranks of service delivery in the Philippines, where the sector is largely based on exporting services through foreign-owned firms' subsidiaries. Instead, in India, large Indian-owned firms have been a driving force behind the sector. Third, many Indian entrepreneurs have benefited from diaspora networks and returnee migrants have provided an important link between clients' markets and India-based offshore service firms.

In the Philippines, the offshore service sector has experienced fast growth and the sector's total share of GDP in 2013 was 5.5%. The main driver of growth has been foreign firms investing or expanding upon their existing investments in the Philippines. As foreign investors explore new frontiers, they have brought second-tier cities into their production networks. Chapter three analysed the role of local institutional actors in facilitating the 'strategic coupling' of second-tier cities in the Philippines with offshore service sector investors. In addition to regional assets, the agency of local coalitions for inward-investment attraction influences and co-shapes the integration of places into the GPNs of service delivery. Combining the concept of strategic coupling with earlier literature on investment attraction, this chapter showed how local institutional actors are complicit in processes of globalisation and can play an important role in enabling processes of BPO investment attraction.

GPN position: Power relations and the branch-plant syndrome

The emergence of the BPO sector and investment attraction present the first step for achieving economic development through integration into GPNs. For assessing developmental outcomes, the position firms and subsidiaries operating in the Philippines occupy in the GPN matter. Chapter four mapped existing offshore service delivery networks from the perspective of actors in the Philippines. For an analysis of dependent or developmental outcomes, I analysed power relations in offshore services in the Philippines by combining the GPN framework with indicators from the older branch-plant literature. Empirically, findings from Metro Manila and three second-tier cities were used to assess power relations and positions in GPNs.

The findings show that branch-plant economies result, in particular in second-tier cities, which are dependent on decisions taken elsewhere. The functional and spatial disintegration of value chains through outsourcing increases the number of actors involved in decision-making, with the Philippine operations often remaining the lowest-ranking unit in power relations. As global outsourcing firms often operate as MNCs with office networks spanning the globe, the Philippine operations are but one of many locations within the GPNs of service delivery. Offshore service sector hubs are susceptible to global competition and 'switching' between subsidiaries can occur relatively easily, especially in low-end services. GPNs are

dynamic and remedies for countries to counter this may be to increase embeddedness and to upgrade into higher-end services in order to avoid these challenges.

Evolution: territorial embeddedness and upgrading trajectories

The evolution of the offshore service sector in the Philippines was addressed in Chapters five and six. Increasing territorial embeddedness in offshore services is more difficult compared to manufacturing, because BPO firms require fewer relations with local firms for sourcing inputs. The most important local asset in the production process of offshore services is skilled labour. Securing access to labour is an avenue for territorial embeddedness of foreign-owned BPO firms, therefore, Chapter five investigated the development of linkages between BPO firms and universities.

The findings showed that many foreign investors have developed linkages with the education sector, thereby investing in longer-term relations with the host territory and increasing their level of embeddedness. Industry-academe collaborations are part of active embedding strategies of foreign investors; however, the interventions seem to be primarily aimed at securing the lower-end skill-supply for their voice-based operations, thereby redirecting institutions to fulfil their short-term needs. This 'institutional capture' of the education sector by foreign investors is a pitfall of increased embeddedness, potentially leading to dependent development outcomes and presenting problems for a move into higher-skilled employment and upgrading into higher value-added services.

Chapter six analysed to what extent upgrading efforts into higher-skilled and higher value-added services have been successful in the offshore service sector in the Philippines. I showed that limited upgrading has taken place into higher-skilled services, which has mainly been driven by foreign actors instead of Philippine-owned firms. Captive shared service centres, especially, have been able to move into more knowledge-intensive segments of business process outsourcing. However, such firms have not changed their power position within their respective GPNs and functional upgrading into higher-revenue functions, as achieved by domestic-owned firms in the Indian offshore service sector, has not occurred. Instead, the findings showed that Indian firms are expanding investments into the Philippines, pointing towards emerging specialisations and a South-South division of labour in offshore service delivery.

Impacts beyond the GPN: value capture and urban transformations

Economic upgrading, or value enhancement, does not necessarily involve capturing value in the same location. Chapter seven addressed the issue of where value capture occurs and who is able to benefit locally from the rise of the offshore service sector. Mapping FDI in offshore services, I showed that firms are highly concentrated in urban service-based special economic zones. Employment opportunities are concentrated in urban areas, leading to an increasing urban-rural divergence of economic development as investment is heavily concentrated in already more-developed regions of the country, most prominently the National Capital Region. In Metro Manila, it is estimated that 13% of all formally employed

persons, in 2013, worked in the BPO sector⁴². The redrawn geography of services therefore resembles not a flattened topography but rather a 'spikey world' (Florida, 2005).

Services offshoring to the Philippines largely follows the cost-saving rationale of firms based in the Global North. The savings, achieved through labour arbitrage, are not reinvested in the territories where they occur, but are often transferred to the headquarter location of the MNC. This corroborates Levy's (2005) observation that offshoring makes it possible for value creation and value capture to occur in different places. SEZ incentives further enable the repatriation of profits to the Global North. The generous tax incentives for BPO firms limit government revenue to indirect tax collection, primarily in the form of income taxes and sales taxes on consumption (Mitra, 2011).

Chapter seven explained the rise of globalised enclaves as places for 24-hour production and consumption, modelled according to foreign investors' home countries. The rise of the offshore service sector thereby leads to spatial transformations, which remain hidden in traditional GPN analysis. In the service-based SEZ spaces, the local beneficiaries of BPO become visible: the young, urban, well-educated workers, real-estate developers, telecommunications- and electricity companies, and mall operators. Domestic value capture is limited to two main groups: workers (through their salaries) and domestic elites (engaging in rent-seeking from foreign multinational corporations).

8.2 A new model of economic development?

To what extent is the emergence of the offshore service sector following a new model of economic development? This section contrasts the offshore service sector with earlier forms of export-oriented development based on manufacturing. Three similarities can be found: both are based on foreign investment, and in both cases 'production' takes place in special economic zones, and labour arbitrage forms the core rationale behind relocation. However, differences are discernible. First, offshore service industries generally employ a highly educated workforce, and for this reason are not only driven by cost competition. An important factor that influences companies' choice of where to locate their operations is the quality of higher education available in the area, especially English-language skills. Second, the BPO phenomenon is office-based instead of factory-based, providing higher wages and better working conditions compared with manufacturing. These advantages, however, also make the sector less inclusive, unable to provide employment opportunities for unskilled agricultural labourers in the same way as the manufacturing sector promised to do.

In India, a fierce debate is taking place on the social inclusiveness of the offshore service sector. Some authors stress how existing spatial and social inequalities are sustained and reinforced by the sector (Dittrich, 2005; Krishna & Nederveen-Pieterse, 2008). Others argue that its role in advancing economic development is exaggerated (Chandrasekhar & Ghosh,

⁴² Based on BPAP statistics of the size and sectoral concentration of the BPO sector in the NCR (in Mitra, 2013), and a labour force of 4.5 million in the NCR, according to the National Statistics Office.

2006). Eichengreen and Gupta (2010), writing on India, state that both manufacturing and services employ increasingly skilled labour. Instead of seeing strategies of manufacturing- and service sector-led development as being contrasting, they believe both are compatible and can grow simultaneously. Economists in the Philippines also stress the importance of industry development in tandem with a booming services sector to allow the country to ‘walk on two legs’; the services sector alone seems unable to create sufficient employment opportunities, especially for less skilled workers, and to create inclusive economic growth (Usui, 2011; 2012).

The creation of domestic employment opportunities in the Philippines could lead to a reduction of overseas labour migration. Thereby, the offshore service sector could have a positive impact by reducing contract migration overseas, which involves considerable social costs to individuals and families (Rodriguez, 2010). BPAP launched a social-media campaign titled “work abroad, live here” to attract more workers into offshore service work (BPAP, n.d.). The campaign links the two main export-oriented economic development strategies of the Philippines and the resulting opportunities for labour: a decision between physical migration and “virtual migration” (Aneesh, 2006). So far, the first remains the favourite choice; remittance levels are increasing and the outflow of overseas workers has not decreased. In fact, preliminary evidence points to the fact that many BPO workers seem to see the sector as a ‘springboard’ for overseas employment, rather than as an alternative (Beerepoot & Hendriks, 2010). Thereby, a previous development strategy of the Philippines remains intact.

Also remaining unchanged are other, more structural conditions in the country, identified by political scientists as the main obstacle to economic development in the Philippines. Elite families and oligarchs continue their rent-seeking model using the new sector as a new source to be tapped. Instead of investing in new technology and productivity, they provide services in protected sectors, including banking, telecommunications, electricity and real-estate. The latter signifies a return to land ownership as the main source of profit, to the benefit of existing elite families (Cardenas, 2014).

Families are the most important unit of Philippine society, and elite families have been able to control economic and political power in the Philippines for a long time⁴³ (McCoy, 1994). In 2011, the 40 richest families in the Philippines, according to the Forbes wealth list, together accounted for 76% of GDP growth; the highest income disparity in Asia (Agence France Presse, 2013). In 2012, a further concentration of wealth occurred, with an increase of 12% in total wealth recorded among the richest 50 families on the list over the previous year, bringing their collective wealth to to \$74 billion (Forbes, 2014). The BPO sector has enabled the further concentration of wealth by elite families as indirect beneficiaries of the sector, especially in the fields of telecommunications and real-estate. In the first half of 2012, the real estate firm SMDC, owned by the Sy family (ranked in first position on the Forbes list for the Philippines), reported a net income of ₱2.7 billion, equalling a rise

⁴³ Land ownership and political elites in the Philippines are often interlinked. Land conversion and real-estate developments are inherently political processes, requiring political power or the use of ‘grease money’ (Kelly, 1998; Magno-Ballesteros, 2000).

of 38% (Dumlao, 2012). In the first half of 2014, real-estate and telecommunication firms reported exorbitant profits⁴⁴. These firms' profits are strongly dependent upon income from foreign BPO investors. Interestingly, these elite family-dominated, domestic service support-sectors are also represented in the business association of the Philippines. Out of the eight members of the board of trustees, four represent the interests of real-estate and telecommunications conglomerates (BPAP, n.d.).

These actors fit precisely Studwell's (2007) description of "Asian godfathers", who refrained from developing export-oriented manufacturing firms and instead relied upon wealth extraction through a combination of political and economic power:

In this relationship, a political elite grants to members of an economic elite monopoly concessions, normally in *domestic service industries*, that enable the latter to extract enormous amounts of wealth, without a requirement to generate the technological capabilities, branded corporations and productivity gains that drive sustainable economic development (2007: xiii, emphasis added).

In this sense, the rise of the offshore service sector does not present a new model but rather a variation on a common theme. The nexus between real-estate and offshore services benefits the same actors (e.g. Megaworld), who had been at the verge of bankruptcy due to the overbuilding of residential and commercial property occurring in the wake of the Asian financial crisis (Bello, 2009: 103-106).

Long-term growth prospects

What long-term prospects for economic growth does the BPO sector present? The geographies of service delivery have become more dynamic and the number of countries trying to attract BPO investment is increasing, leading to competition in the sector. So far, the Philippines' large English-speaking labour pool offers 'scalability' and competitive rates for voice-based service delivery. The Philippines is one of the only remaining countries within the region with a fast-growing population, leading to a continued abundance of labour for years to come, and thus creating downward pressure on wages. The rates, like all exports, are impacted by currency exchange rates. The low valuation of the Philippine peso is required to remain competitive as an exporter of services. The appreciation of the peso has worried foreign investors and stakeholders have lobbied the Philippine government to keep the peso undervalued, especially to remain competitive vis-à-vis India (Aquino & Batino, 2013; Noda, 2012). Foreign investments continue to be driven by efficiency-seeking and not asset-seeking; firms choose to set up offshore operations in the Philippines not because they are searching for better English-language skills than those found in their home countries; they are looking for comparable skills at lower costs.

⁴⁴ The net income of Ayala Land rose by 25% to ₱7.1 billion, Globe Telecommunications' net income rose by a staggering 385% to ₱6.8 billion (both owned by the Ayala family who rank ninth on Forbes list), Megaworld (fourth on Forbes list) increased its net income by 289% to ₱16.4 billion (Rappler, 2014).

The re-shoring of services to sender countries could change the geography of service delivery yet again. As the wage gap between developed and developing countries becomes lower due to stagnant wages in the Global North and rising wages in developing countries, the cost advantage of developing countries diminishes. Moreover, new delivery models involving even further decentralisation and lower wages, such as call-centre services being delivered from home-based individuals in the rural US, or competition from upcoming destinations like Kenya. Another threat to the industry comes from automation due to technological advances. Automation may affect different sectors and professions but is becoming increasingly visible in voice-based customer services. The economist Roubini (2014) argues in a recent blog article that “soon enough voice recognition software will replace the call centers of Bangalore and Manila”.

8.3 Lessons from the Philippine case

On the basis of this research, some tentative policy advice can be given. Three issues could be addressed by the Philippines in moving forward in offshore service delivery. First, large and successful Philippine-owned firms are currently absent in the Philippine BPO sector, a striking contrast to the Indian case. The existence of domestic-owned firms is an important determinant of local value-capture. Most Filipino companies in the offshore service sector occupy the lowest-end of the market, including insecure (and sometimes illegal) outbound call-centre operations. The most successful Filipino-owned firms, which stem from the early years of the country’s advance into BPO services, were taken over by larger foreign companies. The absence of powerful Philippine-owned BPO firms decreases the country’s opportunities for value capture and simultaneously makes the Philippines more dependent upon decisions taken in faraway headquarter locations. Efforts to stimulate domestic entrepreneurship and support locally owned small and medium enterprises are therefore important. These could involve incubator centres and entrepreneurship training in the start-up phase, but more importantly in the growth phase. Also, joint-ventures with foreign investors could be supported. In the past, many Philippine-owned companies were started up but then sold out to foreign firms once they reached a medium size. Providing stimulation for firms in terms of facilitated access to credit and opportunities to grow could help here.

The second policy area where government could reconsider its existing policies is in the subsidies provided to the offshore service sector. The Philippine government has been very supportive of the growth of the offshore service sector and provides generous incentives through its SEZ schemes. The necessity of providing continuous financial subsidies to the sector should be re-evaluated, since firms achieve large cost reductions due to the relocation of service activities. Asian Development Bank economist Usui (2012) estimates that redundant incentives provided to foreign investors have caused revenue losses of over 1% of GDP per annum. Likewise, the financial support given to commercial real-estate developers and existing property owners, who are among the richest families in the country, seems an unnecessary drain on state resources and an example of continuing rent-seeking behaviour by oligarchic elites.

Third, investments in the education system should be made to provide opportunities for advanced education of management staff and the creation of specialised professional skills. The findings of this research have shown that a skilled labour force is an important factor for attracting investments and moving up the value chain. Currently, existing policies and the intervention of foreign investors privilege the creation of only generic, lower-end skills, the ones required for mainly voice-based service delivery.

The findings on the Philippine experience can inform other countries that aim at creating a ‘knowledge-based economy’ on the basis of attracting FDI in offshore services. Although many countries have drawn inspiration from the example of India’s successful development of offshore services, India might present an extreme or unique case, which cannot easily be replicated by other countries. Instead, the Philippines’ lower-end integration into service-delivering GPNs on the basis of foreign-investment attraction might present a more exemplifying⁴⁵ case.

The Philippines participates primarily in low-end export-oriented service delivery so far, based on attracting FDI, with only limited successful upgrading. The extent to which this strategy can lead to the creation of a ‘knowledge-based economy’ remains unclear. Developing countries, which aim at integrating into GPNs in offshore services, could learn from the Philippine experience about the challenges of a lower-end route of BPO service delivery based on foreign investors alone.

8.4 Revisiting GPNs

What lessons can be drawn from this study for the GPN framework? The main aim of this research has been to adapt and transform the heuristic GPN framework into an approach for empirically studying the offshore service sector. Although the framework provided a valuable lens through which to study the offshore service sector in the Philippines, it has been a difficult process to operationalise the broad framework for an empirical study. This, by itself, is an important step in advancing GPN research, as Henderson et al. state: “The proof of success [...] will depend on whether the GPN framework stimulates research that delivers analyses that are both empirically and theoretically richer than at present” (2002: 458).

In general, the GPN approach does not discriminate between manufacturing- or service-production networks and its analytical concepts can be employed for studying services. The GPN approach has been a useful tool to empirically investigate the processes of sector emergence and evolution. In order to operationalise the GPN framework, it has been expanded with other literatures and concepts, sometimes in an ‘eclectic’ fashion, as advocated by previous authors (Dawley, 2011; Parrilli et al., 2013). The adaptation has helped to increase the usefulness of the framework for understanding ‘globalised’ regional development. The three main analytical concepts of power, embeddedness, and value, and the notion of strategic

⁴⁵ I follow Bryman (2008) here, who uses the term ‘exemplifying’ case; Yin (2009) refers to this as a ‘representative’ or ‘typical’ case.

coupling, have been instrumental in tracing the rise and expansion of complex GPNs in services and the changing international division of labour in the Philippines.

The findings also point at the asymmetric power relations and the possible uneven integration into GPNs by developing countries, in some instances similar to branch-plant economies, thereby adding to recent debates about the 'dark side' of GPNs (Coe & Hess, 2011; MacKinnon, 2012). Of importance for analysing developmental outcomes is the issue of entrepreneurship and firm nationality. Yeung (2014) shows how East Asian firms have become disembedded from 'developmental state' structures and re-embedded into GPNs. This strategy, however, presupposes the existence of locally owned firms able to take up technology and learn from lead firms in networks. In the Philippines, these highly competitive national firms have been absent, reducing the opportunities for knowledge spillovers to local firms, thereby diminishing opportunities for local value-capture.

The role of firms originating from the Global South in GPNs requires more research. Often, GPNs are organised with a clear North-South dimension, especially if cost reductions are a rationale for integrating new places into a production network. In offshore services, we can see the growing significance of lead firms stemming from South Asia. The emergence is noted of South-South production networks coordinated by Indian multinational corporations, which follow global delivery models with clients based in the Global North. Several Indian offshore-service firms have started to set up subsidiaries in the Global North⁴⁶. It would be valuable to explore in more detail the enabling conditions for firms from the Global South to assume the position of lead firms in GPNs.

It is important to keep in mind that GPNs are non-static and involve dynamic processes of coupling, recoupling and decoupling (MacKinnon, 2012). First coined in 2002, the GPN framework is still in its infancy and is still evolving. New publications aim to advance GPN research through the integration of labour, finance, and by outlining more dynamic GPN analyses (Coe & Hess, 2013; Coe, Lai & Wojcik, 2014; Coe & Yeung, 2015)⁴⁷. This study has attempted to contribute to this growing field of research.

Apart from adapting the framework and eclectically combining it with existing literature to make it more applicable to empirical research, this study has shown that, on a theoretical level, the GPN framework is stronger in studying networks and weaker in assessing territorial economic development. The rise of globalised enclaves in urban agglomerations in the Philippines confirms the importance to analyse development *in places* (Kelly, 2013). GPNs, though inclusive of many different types of actors, have a blurred vision beyond the boundaries of the network. Actors that are not part of the actual networks, but crucial for their functioning and for issues of local value capture, may fall out of a GPN analysis. Recent endeavours have sought to include the financial sector in GPN analysis (Coe et al., 2014); the real-estate sector in the Philippines can function as another example.

⁴⁶ For example in the Netherlands and the US (Beerepoot, Roodhevel & Jacob, 2014; The Economist, 2011).

⁴⁷ As I write this conclusion, a new GPN research centre is being inaugurated at the National University of Singapore (see <http://gpn.nus.edu.sg/>). The centre's aim is to advance scholarship on GPNs also in the future.

This research has shown that deeper-lying social and institutional structures significantly affect the outcomes of economic development. A powerful and deeply entrenched elite in the Philippines is able to engage in rent-seeking, even in relation to a rather new economic activity. Although the GPN framework affirms that the socio-spatial context influences the nature and articulation of GPNs (e.g. Coe et al., 2008: 289), the social embeddedness in long-standing (local) power structures remains under-theorised in current formulations of the framework. Path-dependent institutions and regional business systems⁴⁸ are important factors for the nature and articulation of GPN integration and remain vital for explaining regional outcomes of development. The actor-centric analysis may benefit from a combination with political economy approaches investigating institutional structures, to arrive at a more realistic understanding of places in global networks.

8.5 Agenda for future research

The relatively recent phenomenon of the offshoring of services still requires more empirical research, including case studies on different sectors and the outcomes in different countries. Important questions not comprehensively addressed in this study focus on the experience of Indian and Filipino workers in the BPO sector. How inclusive is economic growth and who gets access to the new employment opportunities?

Researchers are currently probing deeper into the dynamics of inclusion and exclusion of the BPO sector in India and the Philippines. Are employment opportunities in the sector open to different groups of people or are they reserved for existing middle classes (Sandhya Krishnan)? Do graduates from different castes and minority groups in India get access to BPO employment (Al James, Fiona McConnell and Philippa Williams)? How can work in the BPO sector strengthen the employability of workers in internal- and external labour markets (Leian Marasigan)? And what indirect employment and business opportunities are created in support services for BPO firms, in the fields of security, facilities management and transportation (Randhir Kumar)? Outcomes of these research projects will give more insights into inclusive growth as a result of services offshoring.

8.5.1 Equality and growth

Despite high GDP growth in the Philippines over the past years, unemployment remains problematically high. Some 28% of the population lives below the poverty line, a figure that has remained stable since 2006 (NSCB, 2013). In a survey conducted in December 2013, 55% of Filipinos found their quality of life had decreased over the past year (Philippine Daily Inquirer, 2014). Although the BPO sector primarily employs workers with tertiary education, a 'trickle-down' of workers' salaries towards other sectors may be envisioned to benefit other segments of society. According to BSP data, the average monthly BPO

⁴⁸ A discussion of regional business systems in the Philippines is offered by Van Helvoirt (2009).

salary in Metro Manila in 2012 was \$737 in 2012, sparking high consumption growth in the Philippines (Chan, 2014). The young workforce spends a considerable share of its income on consumption in the local economy, supporting the residential property market, as well as food and beverage industries, transport, tourism, communications and retail (Tajon & Leynes, 2012), thereby increasing the overall size of the service economy (Mitra, 2013). Most of these sectors are dominated by large Philippine-owned conglomerates. More research can be done consumption expenditures of BPO workers in the Philippines, in conjunction with Sandhya Krishnan's ongoing research on the spending patterns 'new middle classes' of offshore service workers in Mumbai.

More research is needed on the indirect effects of the BPO sector. Mitra (2011) reports an estimated 'multiplier effect' of 2.5 indirect jobs created per FTE in the BPO sector in the Philippines. The types of jobs and conditions of employment created require further analysis. Do we witness employment growth in a 'services underclass' of low-paid restaurant workers, drivers, security guards, cigarette vendors, and others, who form the counterpart to the relatively high-paid 'cognitive-cultural' or professional service workers, not unlike service sector patterns observed in metropolitan areas of the US (Scott, 2012)?

8.5.2 Real-estate and enclave-based economic growth in the Philippines

Based on the empirical findings from the Philippines, I identify two directions for further research to assess new forms of service-based economic development, which are interrelated with offshore service delivery in the Philippines. First, I argue that the rise of enclave spaces as topographies of economic development requires a better understanding. Second, the nexus between real-estate and the offshore service sector identified in this study leads to questions on the role of the real estate sector's role as a driver of economic growth.

Future research is recommended to delve further into economic development strategies based on the creation of globalised enclave spaces, which proliferate in the Philippines in the form of gated communities, SEZs, international hospitals and residences for health- and retirement tourism, all-inclusive tourism enclaves, and casinos. These enclave spaces, primarily urban phenomena, are not only increasing the pre-existing urban-rural economic divides but also presenting sharp new boundaries around global capital and the local economy within cities. Understanding the different forms of economic enclaves in the Philippines, existing also in the tertiary sector, is important for analysing the uneven outcomes and both 'dark' and 'bright' sides of participation in GPNs. In general, more comparative research is needed into the different types of contemporary enclaves characterising production in different industries, to understand the consequences and local outcomes of GPN integration (Phelps, Atienza & Arias, forthcoming). The role of the stakeholders involved in their creation, especially the real-estate sector building these environs, also requires more attention in the future.

Additional research would be helpful to further elucidate the role of real-estate as a driver of economic growth. The high GDP growth rates in the services component in the Philippines is not only derived from offshore service investment; current economic growth

rates in the Philippines are also influenced by a real-estate construction boom. Commercial property development is primarily driven by (expected) demand from foreign investors in the BPO sector, and BPO workers' salaries (in addition to remittances received from overseas) are channelled into new residential real-estate projects (Colliers International, 2012). Overdevelopment of high-end commercial property and luxurious residential condominiums could lead to an overheating of the economy, and unregulated real-estate growth financed by high borrowing (which increased by 45% in 2013) and shadow banking could lead to a bubble (Colombo, 2013; World Bank, 2014). The dynamics in motion are not unlike the run-up to the Asian crisis and its boom-to-bust journey, which was fuelled by cheap credit and speculative real-estate investment, with disastrous economic consequences.

8.6 Final observations

'Miracle' economies, a favourite theme of economists studying Asia, seems to be a far-fetched description when observing the empirical process of the emergence of the offshore service sector on the ground. Traditional economic development 'models' have been in crisis for some time; import-substitution policies and attempts at autarky did not lead to rapid industrialisation; export-oriented manufacturing industries in many cases led to short-lived employment creation based on lower-cost labour alone. Services, as a new driver of export-oriented development, present opportunities for economic growth and employment creation. However, deep-rooted structures of inequality and rentier capitalism in the Philippines are hard to break, and it seems that the offshore service sector, despite lifting the international profile of the country and its investment rating, has not made a dent in these underlying structures.

Achieving economic development in a globalising world will depend increasingly on how to find niches in GPNs that are continuously evolving, both functionally and spatially. The opportunity to switch production volumes between different regions, and their workforces, through strategies of dual- or multiple sourcing is an example of how space is not only socially constructed, but how social processes are constructed over space (Massey, 1984: 56). The vertical disintegration of GPNs in service delivery and their expansion around the globe to include ever-new frontier spaces leads to profound changes in places that couple or decouple from (service) production processes.